

Section 4

Field Work Standards for Performance Audits—Reasonable Assurance, Significance, Audit Risk, and Planning,

This section documents the auditing standards for performance audits related to planning the audit; supervising staff; obtaining sufficient, appropriate evidence; and preparing audit documentation. The concepts of reasonable assurance, significance, and audit risk form a framework for applying these standards and are included throughout the discussion of performance audits. Section 5 documents how the Internal Audit Office complies with the Field Work standards.

Reasonable Assurance

Performance audits that comply with GAGAS provide reasonable assurance that evidence is sufficient and appropriate to support the auditors' findings and conclusions. Thus, the sufficiency and appropriateness of evidence needed and tests of evidence will vary based on the audit objectives, findings, and conclusions. Objectives for performance audits range from narrow to broad and involve varying types and quality of evidence. In some engagements, sufficient, appropriate evidence is available, but in others, information may have limitations. Professional judgment assists auditors in determining the audit scope and methodology needed to address the audit objectives, while providing the appropriate level of assurance that the obtained evidence is sufficient and appropriate to address the audit objectives. Reasonable assurance is provided by a rigorous planning process and through implementation of the Internal Auditor's quality assurance program.

Significance in Performance Audits

The concept of significance assists auditors throughout a performance audit, including when deciding the type and extent of audit work to perform, when evaluating results of audit work, and when developing the report and related findings and conclusions. Significance is defined as the relative importance of a matter within the context in which it is being considered, including quantitative and qualitative factors. Such factors include the magnitude of the matter in relation to the subject matter of the audit, the nature and effect of the matter, the relevance of the matter, the needs and interests of an objective third party with knowledge of the relevant information, and the impact of the matter to the audited program or activity. Professional judgment assists auditors when evaluating the significance of matters within the context of the audit objectives. Significance is

documented through the audit scoping statement (Section 5) and the finding development process discussed in Section 6.

Audit Risk

Audit risk is the possibility that the auditors' findings, conclusions, recommendations, or assurance may be improper or incomplete, as a result of factors such as evidence that is not sufficient and/or appropriate, an inadequate audit process, or intentional omissions or misleading information due to misrepresentation or fraud. The assessment of audit risk involves both qualitative and quantitative considerations. Factors such as the time frames, complexity, or sensitivity of the work; size of the program in terms of dollar amounts and number of citizens served; adequacy of the audited entity's systems and processes to detect inconsistencies, significant errors, or fraud; and auditors' access to records, also impact audit risk. Audit risk includes the risk that auditors will not detect a mistake, inconsistency, significant error, or fraud in the evidence supporting the audit. Audit risk can be reduced by taking actions such as increasing the scope of work; adding experts, additional reviewers, and other resources to the audit team; changing the methodology to obtain additional evidence, higher quality evidence, or alternative forms of corroborating evidence; or aligning the findings and conclusions to reflect the evidence obtained.

Office of the City Auditor Policy on Audit Risk

In the Office of the City Auditor, audit risk will be assessed in the audit planning phase of the audit and quality control component of the audit process. Section 5 discusses the audit planning process.

Planning

Government Auditing Standards requires that auditors must adequately plan and document the planning of the work necessary to address the audit objectives. Specifically, the standards require that auditors must plan the audit to reduce audit risk to an appropriate level for the auditors to provide reasonable assurance that the evidence is appropriate to support the auditor's findings and conclusions. In planning the audit, auditors should assess significance and audit risk and apply these assessments in defining the audit objectives and the scope and methodology to address those objectives. Planning is a continuous process throughout the audit. Therefore, auditors may need to adjust the audit objectives, scope, and methodology as work is being completed.

Audit objectives: The objectives are what the audit is intended to accomplish. They identify the audit subject matter and performance aspects to be included, and may also include the potential findings and reporting elements that the auditors expect to develop. Audit objectives can be considered questions that auditors try to answer based on evidence obtained and assessed against criteria.

Audit scope: Scope is the boundary of the audit and is directly tied to the audit objectives. The scope defines the subject matter that the auditors will assess and report on, such as a particular program or aspect of a program, the necessary documents or records, the period of time reviewed, and the locations that will be included.

Audit methodology: The methodology describes the nature and extent of audit procedures for gathering and analyzing evidence to address the audit objectives. Audit procedures are the specific steps and tests auditors will carry out to address the audit objectives. Auditors should design the methodology to obtain sufficient, appropriate evidence to address the audit objectives, reduce audit risk to an acceptable level, and provide reasonable assurance that the evidence is sufficient and appropriate to support the auditors' findings and conclusions. Methodology includes both the nature and extent of audit procedures used to address the audit objectives.

The standards also provide that auditors should assess audit risk and significance within the context of the audit objectives by gaining an understanding of the following:

- a. the nature and profile of the programs and the needs of potential users of the audit report;
- b. internal control as it relates to the specific objectives and scope of the audit;
- c. information systems controls for purposes of assessing audit risk and planning the audit within the context of the audit objectives;
- d. legal and regulatory requirements, contract provisions or grant agreements, potential fraud, or abuse that are significant within the context of the audit objectives; and
- e. the results of previous audits and attestation engagements that directly relate to the current audit objectives.

During planning, auditors also should

- a. identify the potential criteria needed to evaluate matters subject to audit;
- b. identify sources of audit evidence and determine the amount and type of evidence needed given audit risk and significance;
- c. evaluate whether to use the work of other auditors and experts to address some of the audit objectives;
- d. assign sufficient staff and specialists with adequate collective professional competence and identify other resources needed to perform the audit ;

- e. communicate about planning and performance of the audit to management officials, those charged with governance, and others as applicable; and
- f. prepare a written audit plan.